

TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

TOWN OF PAGOSA SPRINGS, COLORADO
 YEAR ENDED DECEMBER 31, 2010
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INDEPENDENT AUDITOR'S REPORT

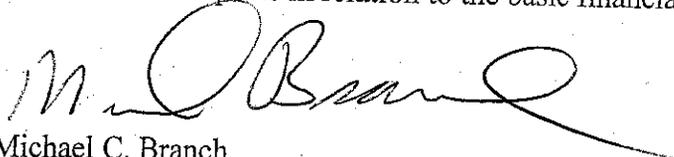
I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Pagosa Springs, Colorado as of and for the year ended December 31, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit a reasonable basis for our opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund, of the Town of Pagosa Springs, Colorado, as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis beginning on page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Local Highway Finance Report and other supplemental schedules consisting of budgetary comparison schedule for the Sanitation Fund and Geothermal Fund are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Michael C. Branch
Certified Public Accountant
February 24, 2011

TOWN OF PAGOSA SPRINGS

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Town of Pagosa Springs' annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year, which ends December 31, 2010. Please read it in conjunction with the Town's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

National economy weakness continues to be reflected in the layoffs and high unemployment claims. The December 2010 unemployment rate is as follows: nation-wide, 9.4% 9.8% (9.9% in 2009); Colorado, 8.8% (7.3% in 2009); and Archuleta County, 10.9% (8.3% in 2009). While the unemployment rate continues to adversely affect national, state and local economic stability, other national leading indicators suggest that the economy is stabilizing. The stock market continued to rebound in 2010.

To respond quickly should the local economy experience a downturn, the Town Council continued its policy requiring Town expenditures to be reduced in direct proportion to the reduction in sales tax revenues and that expenditure reductions should take into account the relative value of specific programs or services provided to the community. This policy is reflected in Resolution 2010-15.

The Town Council budgeted for \$2,853,374 in 2011 sales tax revenue, or seven percent (7%) below 2009 actual sales tax revenue, and three percent (3%) above 2010 budgeted sales tax revenue. This budgeted amount was split equally between the General Fund and Capital Fund. For every five percent (5%) reduction in expenditures, \$152,000 must be trimmed from the budget (\$76,000 from the General Fund and \$76,000 from the Capital Improvement Fund).

The Resolution also directs the Town staff to: 1) Implement a policy to abate fifty percent (50%) of the Town's normal planning/development and building permit fees for 2011; 2) Monitor the Town's revenues on an monthly basis and report fluctuations from prior months and prior year revenues to the Town Council; 3) Deploy a financial stability plan, reducing Town expenditures upon the advent of lower sales tax revenue over two consecutive months (or two of three consecutive months) as compared to the averaged sales tax revenue levels of 2009, and 2010. The plan excludes the 2010 Department of Revenue Audit payment.

Modification to expenditures may occur as early as mid-February 2011. For example, February's expenditure level will be based on the average of December 2010 and January 2011 revenue (or the average of November and December of 2010 and January 2011 revenue). Using this method, the Town will not delay its response to changes in the revenue stream.

The Town's 2011 financial stability plan controls expenditures in the following manner: whenever the percentage of sales tax revenues collected falls more than five percent (5%) below the average revenues collected for the same period in the preceding two fiscal years and the percentage of sales tax revenues collected in the previous month (or previous two months) falls five percent (5%) below the average revenues collected for the same periods in the preceding two fiscal years, the Town manager shall implement a ten percent (10%) reduction in sales tax related expenditures.

2010 BUDGET PERFORMANCE

The Town's 2010 sales tax revenues declined three and six tenths percent (-3.56%) or -\$109,201 compared to 2009. Accordingly, the 2011 budget holds expenditures levels down to ensure the Town's economic stability. Town expenditure reductions will be directly proportional to the reduction in revenues and the criterion for expenditure reductions will take into account the relative value of specific programs or services provided to the community.

The 2010 budget approved by the Town Council in December of 2009 estimated increasing the end of year General Fund reserves by \$29,561. At the end of 2010 the Town actually increased General Fund reserves by \$643,188 (including \$500,870 Department of Revenue audit payment). The same approved budget estimated that the Town would add \$9,148 to Capital Fund Reserves. At the end of 2010 the Town actually increased Capital Fund reserves by \$450,552 (including \$500,870 Department of Revenue audit payment).

To ensure financial stability, during 2010, the Town staff was diligent to reduce expenditures and accessed additional grant funding (e.g.: an additional \$161,440 for a new dust-reduction street sweeper). As a result of staff diligence, a Department of Revenue audit payment of \$1,001,739 and sales tax revenue exceeding the Town Council budgeted amount by \$197,616, at the end of 2010 the Town was able to acquire badly needed capital equipment.

Acquired capital equipment included the purchase of three fully equipped Police Vehicles as well as several new computers and new server to replace the rapidly outdated equipment. Upgrades to the Ross Aragón Community Center were approved and will begin in 2011 and the 2010 purchase of critical river property will be used to expand the Town's downtown trail system.

2011 BUDGET

During the budget development process, the Town Council utilized a 2011 sales tax revenue target of \$2,853,374, which is seven percent (7%) below 2009 actual sales tax revenue, and three percent (3%) above 2010 budgeted sales tax revenue.

The 2011 budget projected a \$2,456,485 carryover of funds from 2010. The actual cash carried into 2011 is \$2,606,082 (includes the unexpected revenues of \$1,001,739 from the Department of Revenue sales tax audit). The \$149,597 growth is a result of increased General Fund revenues of \$66,382 (\$44,208 in sales tax revenues between the General and Capital Funds) and reduced expenditures in the General and Capital Funds.

The approved 2011 budget estimates year-end cash reserves of \$1,588,631 in the General Fund and \$514,955 in the Capital Improvement Fund. The proposed 2011 budget expenditures will create a year-end unrestricted reserve of \$1,955,143.

The Town's 2010 sales tax revenues declined three and six tenths percent (-3.56%) or -\$109,201 compared to 2009. In calendar year 2009 sales tax revenue was down -7.47% (-\$247,730), compared to 2008. To be fully prepared, the department heads identified expenditures at the five percent (5%), ten percent (10%), fifteen percent (15%) and twenty percent (20%) reduction levels.

In 2010, the Town's sales tax revenue analysis shifted to one based on year-to-date sales tax receipts (a cash basis analysis, rather than an accrual basis analysis).

Actual sales tax revenue received in 2010 total \$3,960,681 (includes a one-time \$1,001,739 Department of Revenue audit). While 2010 sales tax revenue was below those of 2009, the deficits are much less than several months ago.

Year-to-date lodger's tax revenue has increased +8.48% (+\$26,872) compared to the same period last year. In calendar year 2009 lodgers tax revenue was up +9.20% (\$29,684), compared to 2008. The Town lodging tax rate of 4.9% resulted in \$315,941 in 2006; \$334,149 in 2007; \$322,666 in 2008; and \$352,376 in 2009. The preliminary figures for 2010 indicate that lodging tax revenues will total approximately \$381,658. Expenditure of Lodgers Tax revenue is restricted to tourism related marketing or tourism related capital improvements and are reflected in the Town Tourism Committee budget which is reviewed and approved by the Town Council annually.

CAPITAL IMPROVEMENT

In November of 2008, the voters renewed a measure that allocates 1% local sales tax to the Town of Pagosa Springs for capital improvements and the maintenance thereof. To respect the decision of the voters, the Town has divided its budget into general operations and capital improvement sections.

The Town Council's allocation of capital improvement revenues for 2011 continues to place increased emphasis on improving the Town's street infrastructure. Debt service of Town facilities also remains a high priority. This approach ensures that the Town does not become overextended in new facility/infrastructure projects without considering the cost of maintenance. Therefore, the structure of the proposed capital improvement budget reflects expenditures in maintenance and debt service first, then new projects. After these priorities, the Town will use remaining revenues to expand the community's fiber optics and wireless communication capabilities. The fiber optics initiative is a partnership with Archuleta County, other communities in the Southwest economic development region, and the Colorado Department of Local Affairs.

On December 15, 2009, the Town Council approved the Capital Improvement Decision Matrix as a general guide for identifying and prioritizing capital improvement projects. As part of the Town's capital improvement plan, SGM Engineers and the Street's Department Director drafted a five year plan to improve the Town's streets. The Council then refined the street improvement five-year plan by moving the reconstruction of Lewis Street between North 3rd Street and North 4th Street from 2012 to 2010.

During 2010, in addition to filling pot-holes throughout Town, the Town's Streets Department staff replaced sidewalk, curb and gutter at the Hwy 160 and Hot Springs Blvd. pocket park. Reconstruction of the Trinity Lane and Eagle Drive intersection and Village Drive between Eaton Drive and Talisman Drive and the Hwy 160 and 7th Street entrance was completed in October. In September, chip and seal work was completed on 6th Street, Eagle Drive and Village Drive.

Cost estimates for the reconstruction of Lewis Street between 1st Street and 4th Street were submitted to the Town Council. Engineering for Lewis Street will be complete and construction will begin in the spring of 2011. The Town plans to submit a grant application to CDOT for the construction of a sidewalk on the south side of Lewis Street.

Note: In addition to major projects (roads, bridges, buildings, etc.), capital improvements in government agencies typically include items purchased for \$2,500 (technology items as low as \$1,000), or more, and having a useful life of five years or more (e.g.: computers, vehicles, etc.).

ASSESSED VALUATION & MILL LEVIES

The Town of Pagosa Springs assessed valuation for 2011 is \$70,413,979 (an increase of \$485,063 from 2010). Staff recommended that the Town Mill Levy be set at 1.557 Mills, generating \$108,879, plus an additional .015 mills of refunds/abatements will generate \$1,049.

SPECIAL FUNDS SUMMARY

Beginning in 2009 and continuing in 2011, the format of the budget changed, reflecting separate fund accounts for all Town resources that are restricted to specific projects. These funds include the Capital Improvement Fund, Lodger's Tax Fund, Conservation Trust Fund, and Impact Fee/Trust Fund. The General Fund and Geothermal Enterprise Fund previously existed.

GENERAL FUND

In 2009, the General Fund was split into several different funds. The 2011 Budget shows General Fund beginning reserves of \$1,695,208 and projects 2011 revenues at \$1,907,473 with expenses of \$2,014,049 creating a year-end balance of \$1,588,631.

CAPITAL IMPROVEMENT FUND

The creation of a Capital Fund was required to ensure full accountability in response to the November 2008 ballot initiative in which sales tax collection requires the expenditure of 50% of the town's Sales Tax Revenue to be spent on capital projects and maintenance. The 2011 Budget estimates Capital Fund beginning reserves of \$761,277; projected revenues of \$2,687,727; expenses of \$2,934,049; and creating a year-end balance of \$514,955.

CONSERVATION TRUST FUND

These revenues result from an IGA with the State of Colorado and Archuleta County for the receipt of Town and County lottery dollars. These funds can be used specifically for capital improvements and maintenance related to parks, recreation and trails. This fund anticipates 2011 revenues of \$45,850 and expenditures of \$50,000 for a budgeted fund balance of \$69,714.

LODGERS TAX FUND

The Town Tourism Committee is the entity designated by the town to budget revenues and expenditures of Lodgers Tax dollars. The town budget reflects the TTC general income and detailed expenditures. The 2011 budget reflects increasing TTC expenditures for capital construction projects. The budget projects 2011 revenues as follows: Lodgers Tax, \$400,000; visitor guide, \$99,900; and grants \$200,000. Expenditures are planned at \$ 699,900, thus creating a year-end fund balance of \$65,212.

IMPACT FEE/TRUST FUND

This fund has been established to improve the administration of these earmarked funds. The town collects impact fee funds for roads, regional public buildings, regional recreation facilities, parks and trails. The town also collects impact fees for the Upper San Juan Fire District (Emergency Service Provider) and the San Juan Water Conservancy District (Water Storage). The 50 JT School District, as an in-lieu dedication, has also been added to this fund, as the impact fee dollars are passed through to this taxing district. During the 3rd quarter of 2008, the town initiated collection of a 2% administration fee for the pass-through collections to the Water Conservancy, Emergency Management and School District. In 2009, the Town Council abated development fees at a 100% rate and in 2010 the fees were abated at 50%. The 50% abatement, which includes the Town's impact fees, will continue through 2011.

The Town also collects funds for the Pinon Lake Fountain, the Fourth of July Fireworks, Whitewater Features and the Yamaguchi Park skate park. The 2011 budget reflects revenues of \$40,135 and expenditures of \$83,135 for a total year-end fund balance of \$56,829.

GEOHERMAL ENTERPRISE FUND

The Geothermal Enterprise Fund includes the full costs of operating this utility. As a result of aging infrastructure, the Town is assessing alternative approaches to utilizing its geothermal waters for heating purposes. In 2010, the National Renewable Energy Laboratory conducted a study and provided the Town options for more effectively utilizing our geothermal resources, along with recommended grant sources.

On December 16th the Town signed a letter of intent with Hardin Geothermal, LLC to pursue an expanded use of our geothermal resources. Hardin Geothermal is encouraging the Town to utilize U. S. Department of Energy grant funds to enhance the Town's heating system, as well as provide for energy related renovations of community businesses and homes. In early 2011 the Town and Hardin will assess the merits of utilizing the company's technology and its business approach to acquiring U. S. Department of Energy grant funds.

The 2011 budget shows an estimated beginning fund balance of \$202,873, operational revenues of \$44,500, grant revenues of \$400,000 and expenditures of \$522,050.

ORGANIZATIONAL CHANGES

The organizational changes reflected in the 2009 and 2010 budgets will continue in 2011. These include an increased level of detail and separation of multiple line items to improve tracking of expenditures. To improve accountability, a number of line items that were formally a direct charge against the general fund have been moved into the department budgets. For example, the cost of legal services and economic development have been moved into the Town Manager's budget and the Combined Dispatch Center and the Humane Society of Pagosa Springs have been move into the Police Department budget. General copy costs are accumulated within the Town Clerk's budget. However, cell phones were redistributed from the Clerk's Department to each individual department. The cemetery revenues were repositioned to the capital fund along with the associated expenses. Amortization schedules for the town's existing debt service have been included as attachments to the budget.

STAFFING

After several years of declines in Town staffing, in 2011, the Town will increase staffing by 3 full time equivalent positions, including: a police sergeant; seasonal parks maintenance; seasonal streets maintenance; and two janitorial staff will move from part-time to full-time. As in 2010, Town staff will not receive any cost of living or merit salary increases in 2011. The last Salary Survey was completed in 2004.

AUDIT OF TOWN REVENUES AND EXPENDITURES

Available for public review is an audit of the Town's 2010 expenditures dated February 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts — management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the Town's:

The first two statements are *government-wide financial statements* that provide both *long-term and short-term* information about the Town's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Town's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending. Governmental funds include the General and Conservation Trust Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Town-wide Statements

The Town-wide statements report information about the Town as a whole using accounting methods similar to those used by private companies. The statement of net assets includes all of the Town's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Town-wide statements report the Town's net assets and how they have changed. Net assets, the difference between the Town's assets and liabilities are one way to measure the Town's financial health or position.

Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Town, one needs to consider additional non-financial factors such as changes in the Town's tax base, and the condition of the Town buildings along with major capital improvements.

The Town-wide financial statements of the Town include all of the *Governmental activities*. Most of the Town's basic services are included here. Sales taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant *fund*— not the Town as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and by bond covenants.

The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Town has the following funds:

Governmental funds — All of the Town's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Total net assets increased by \$1,627,044. Cash increased \$1,620,514.

The Town's total governmental revenues were \$5,350,215. Over 74% of the Town's revenues came from sales taxes.

Governmental Activities

Property tax revenues remain about the same as the previous year, due to this was not an assessment year.

General Fund Budgetary Highlights

Actual expenditures were \$606,904 below budget amounts. Actual revenues were more than budgeted amounts, by \$761,671.

CAPITAL ASSETS

At the end of 2010, the Town had invested in a broad range of capital assets, including land, equipment and buildings.

Town's Capital Assets	
Land	\$ 1,121,550
Streets	9,470,537
Buildings	2,608,438
Equipment	874,457
Geothermal	1,184,673
Sanitation	<u>3,602,363</u>
Totals	18,862,018
Less Accumulated Depreciation	<u>(3,553,648)</u>
Net Capital Assets	\$ 15,308,370

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Management.

Basis Financial Statements

TOWN OF PAGOSA SPRINGS
 Statements of Net Assets
 December 31, 2010

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets			
Cash	\$ 2,962,513	\$ 1,185,011	\$ 4,147,524
Cash held by County	918	392	1,310
Account receivables	800,979	115,533	916,512
Tax receivables	110,761	100,454	211,215
Total Current Assets	<u>3,875,171</u>	<u>1,401,390</u>	<u>5,276,561</u>
Capital Assets			
Fixed assets net of depreciation	12,448,578	2,859,791	15,308,369
Total Assets	<u>\$ 16,323,749</u>	<u>\$ 4,261,181</u>	<u>\$ 20,584,930</u>
LIABILITIES			
Current liabilities			
Accounts Payable and Accrued	\$ 184,874	\$ 8,640	\$ 193,514
Deferred revenue	110,761	100,454	211,215
Current portion of long term debt	210,951	39,076	250,027
Impact fees	166,802		166,802
Total Current Liabilities	<u>673,388</u>	<u>148,170</u>	<u>821,558</u>
Long term liabilities			
Debt payable (net of current)	705,277	223,727	929,004
Total Liabilities	<u>\$ 1,378,665</u>	<u>\$ 371,897</u>	<u>\$ 1,750,562</u>
Net Assets			
Capital assets net of related de	\$ 11,532,350	\$ 2,596,988	\$ 14,129,338
Reserved for emergencies	66,815		66,815
Designated	275,088		275,088
Unrestricted	3,070,831	1,292,296	4,363,127
Total Net Assets	<u>\$ 14,945,084</u>	<u>\$ 3,889,284</u>	<u>\$ 18,834,368</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS
Statement of Activities
For the Year Ended December 31, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Misc. Grants	Governmental Activities	Business Type Activities	Total
Governmental Activities:						
General Government	\$ (2,099,535)	\$ 168,764	\$ 69,577	\$ (1,861,194)	\$	\$ (1,861,194)
Public safety	(796,227)	49,694		(746,533)		(746,533)
Public works	(1,071,796)		261,710	(810,086)		(810,086)
Total	<u>(3,967,558)</u>	<u>218,458</u>	<u>331,287</u>	<u>(3,417,813)</u>		<u>(3,417,813)</u>
Business-type Activities:						
Enterprise funds	(579,076)	731,985			152,909	152,909
Total	<u>(579,076)</u>	<u>731,985</u>			<u>152,909</u>	<u>152,909</u>
Governmental and Business Type Activities Total	<u>\$ (4,546,634)</u>	<u>\$ 950,443</u>	<u>\$ 331,287</u>	<u>\$ (3,417,813)</u>	<u>\$ 152,909</u>	<u>\$ (3,264,904)</u>
General revenues:						
Taxes				4,748,285	106,582	4,854,867
Other				35,368	39,904	75,272
Interest income				16,817	3,727	20,544
Plant investment					4,400	4,400
Interest expense				(50,043)	(13,092)	(63,135)
Total General Revenues				<u>4,750,427</u>	<u>141,521</u>	<u>4,891,948</u>
Transfers				(23,755)	23,755	
Changes in net assets				1,308,859	318,185	1,627,044
Net assets, January 1, 2010				<u>13,636,225</u>	<u>3,571,099</u>	<u>17,207,324</u>
Net assets, December 31, 2010				<u>\$ 14,945,084</u>	<u>\$ 3,889,284</u>	<u>\$ 18,834,368</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO

Balance Sheet
 Governmental Funds
 December 31, 2010

	Governmental Fund Types			Total Governmental Funds
	General	Capital Improvement	Conservation Trust	
ASSETS				
Cash	\$ 2,120,320	\$ 768,524	\$ 73,669	\$ 2,962,513
Cash held by County	918			918
Receivables	366,435	434,544		800,979
Property Taxes	110,761			110,761
Total Assets	\$ 2,598,434	\$ 1,203,068	\$ 73,669	\$ 3,875,171
LIABILITIES				
Accrued expenses	\$ 103,515	\$ 44,586	\$	\$ 148,101
Account payables	36,773			36,773
Deferred revenue	110,761			110,761
Impact fees	166,802			166,802
Total Liabilities	417,851	44,586		462,437
FUND EQUITY				
Fund Balances:				
Reserved for capital assets	166,802	1,158,482		1,325,284
Reserved for parks			73,669	73,669
Reserved for emergencies	66,815			66,815
Designated for health	108,286			108,286
Undesignated	1,838,680			1,838,680
Total Fund Equity	2,180,583	1,158,482	73,669	3,412,734
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,598,434	\$ 1,203,068	\$ 73,669	\$ 3,875,171

See accompanying notes

TOWN OF PAGOSA SPRINGS
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Assets
 For the Year Ended December 31, 2010

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$	3,412,734
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is	\$ 14,074,892	
Accumulated depreciation is	<u>(1,626,404)</u>	
		12,448,488

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consists of:

Capital Lease		<u>(916,228)</u>
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Total net assets - governmental activities	\$	<u><u>14,944,994</u></u>
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See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and
Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2010

	General	Capital Improvement	Conservation Trust	Total Governmental Funds
REVENUE				
Taxes	\$ 2,639,113	\$ 2,109,172	\$	\$ 4,748,285
Licenses & permits	31,125			31,125
Intergovernmental and grants	69,577	166,335	95,375	331,287
Charges for services	95,391	42,248		137,639
Fines and forfeits	49,694			49,694
Interest	16,507		310	16,817
Other	23,368	12,000		35,368
	2,924,775	2,329,755	95,685	5,350,215
Total Revenue				
EXPENDITURES				
General government	799,169			799,169
Public safety and Courts	796,227			796,227
Public works		1,421,963		1,421,963
Tourism	396,286			396,286
Parks and recreation	155,497	167,402	80,000	402,899
Public support	56,250			56,250
Capital outlay and debt service		358,165		358,165
	2,203,429	1,947,530	80,000	4,230,959
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	721,346	382,225	15,685	1,119,256
OTHER FINANCING SOURCES (USES)				
LOAN PROCEEDS		72,416		72,416
TRANSFERS	(23,755)			(23,755)
FUND BALANCE BEGINNING OF YEAR	1,482,992	703,841	57,984	2,244,817
FUND BALANCE END OF YEAR	\$ 2,180,583	\$ 1,158,482	\$ 73,669	\$ 3,412,734

See accompanying notes

TOWN OF PAGOSA SPRINGS
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2010

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances – total government funds	\$ 1,167,917
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	350,167
The net effect of various miscellaneous transactions involving capital assets (depreciation) is to increase net assets.	(346,270)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>137,045</u>
Change in net assets of governmental activities	<u>\$ 1,308,859</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
General Fund
Year Ended December 31, 2010

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 2,013,307	\$ 2,013,307	\$ 2,639,113	\$ 625,806
Licenses & permits	36,500	36,500	31,125	(5,375)
Intergovernmental	72,585	72,585	69,577	(3,008)
Charges for services	108,844	108,844	95,391	(13,453)
Fines and forfeits	52,200	52,200	49,694	(2,506)
Interest	12,200	12,200	16,507	4,307
Other	12,162	12,162	23,368	11,206
Total Revenue	<u>2,307,798</u>	<u>2,307,798</u>	<u>2,924,775</u>	<u>616,977</u>
EXPENDITURES				
General government	795,047	805,978	799,169	6,809
Public safety and Courts	834,831	837,936	796,227	41,709
Tourism	383,042	411,742	396,286	15,456
Parks and recreation	177,909	177,908	155,497	22,411
Public support	56,250	56,250	56,250	
Total Expenditures	<u>2,247,079</u>	<u>2,289,814</u>	<u>2,203,429</u>	<u>86,385</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>60,719</u>	<u>17,984</u>	<u>721,346</u>	<u>703,362</u>
TRANSFERS	(23,755)	(23,755)	(23,755)	
FUND BALANCE BEGINNING OF YEAR	<u>1,482,992</u>	<u>1,482,992</u>	<u>1,482,992</u>	
FUND BALANCE END OF YEAR OF YEAR	<u>\$ 1,519,956</u>	<u>\$ 1,477,221</u>	<u>\$ 2,180,583</u>	<u>\$ 703,362</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
Capital Improvement Fund
Year Ended December 31, 2010

	Capital improvement Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 1,517,824	\$ 1,517,824	\$ 2,109,172	\$ 591,348
Intergovernmental and grants	523,327	523,327	166,335	(356,992)
Other	142,825	142,825	54,248	(88,577)
Total Revenue	2,183,976	2,183,976	2,329,755	145,779
EXPENDITURES				
Public works	1,269,124	1,693,081	1,421,963	271,118
Parks and recreation	197,434	166,918	167,402	(484)
Capital outlay and debt service	886,694	608,050	358,165	249,885
Total Expenditures	2,353,252	2,468,049	1,947,530	520,519
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(169,276)	(284,073)	382,225	666,298
LOAN PROCEEDS			72,416	72,416
FUND BALANCE BEGINNING OF YEAR	703,841	703,841	703,841	
FUND BALANCE END OF YEAR OF YEAR	\$ 534,565	\$ 419,768	\$ 1,158,482	\$ 738,714

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
Conservation Trust
For Year Ended December 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUE				
Intergovernmental	\$ 96,250	\$ 96,250	95,375	\$ (875)
Interest	<u>520</u>	<u>520</u>	<u>310</u>	<u>(210)</u>
 Total Revenue	 <u>96,770</u>	 <u>96,770</u>	 <u>95,685</u>	 <u>(1,085)</u>
EXPENDITURES				
Parks	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	
 Total Expenditures	 <u>80,000</u>	 <u>80,000</u>	 <u>80,000</u>	
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	 <u>16,770</u>	 <u>16,770</u>	 <u>15,685</u>	 <u>(1,085)</u>
 FUND BALANCE BEGINNING OF YEAR	 <u>57,984</u>	 <u>57,984</u>	 <u>57,984</u>	
 FUND BALANCE END OF YEAR OF YEAR	 <u>\$ 74,754</u>	 <u>\$ 74,754</u>	 <u>\$ 73,669</u>	 <u>\$ (1,085)</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Net Assets
December 31, 2010

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
ASSETS			
Current Assets			
Cash	\$ 962,657	\$ 222,354	\$ 1,185,011
Account receivables	92,671	22,862	115,533
Taxes receivable	100,454		100,454
Cash with County	392		392
	1,156,174	245,216	1,401,390
Total Current Assets			
Capital Assets			
Fixed assets, net	2,351,689	508,102	2,859,791
	2,351,689	508,102	2,859,791
Total Assets	\$ 3,507,863	\$ 753,318	\$ 4,261,181
LIABILITIES			
Current liabilities			
Leave time	\$ 8,640	\$	\$ 8,640
Deferred revenue	100,454		100,454
Bonds payable, current	39,076		39,076
Total Current Liabilities	148,170		148,170
	148,170		148,170
Long term liabilities	223,727		223,727
	223,727		223,727
Total Liabilities	\$ 371,897		\$ 371,897
	\$ 371,897		\$ 371,897
Net Assets			
Capital assets net of debt	\$ 2,088,886	\$ 508,102	\$ 2,596,988
Unrestricted	1,047,080	245,216	1,292,296
	1,047,080	245,216	1,292,296
Total Net Assets - Fund Level	\$ 3,135,966	\$ 753,318	\$ 3,889,284
	\$ 3,135,966	\$ 753,318	\$ 3,889,284

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
December 31, 2010

	Business-type Activities Enterprise Funds		
	<u>Sanitation Fund</u>	<u>Geothermal Fund</u>	<u>Totals</u>
Operating Revenue:			
Service fees and leases	\$ 683,585	\$ 48,400	\$ 731,985
	<u>683,585</u>	<u>48,400</u>	<u>731,985</u>
Total Revenue			
	<u>683,585</u>	<u>48,400</u>	<u>731,985</u>
Operating Expenses:			
Personnel	93,830	8,563	102,393
Commodities	224,720	24,949	249,669
Contractual	110,602	11,338	121,940
Depreciation	81,426	23,648	105,074
	<u>510,578</u>	<u>68,498</u>	<u>579,076</u>
Total Expenses			
	<u>510,578</u>	<u>68,498</u>	<u>579,076</u>
Income (Loss) From Operations	<u>173,007</u>	<u>(20,098)</u>	<u>152,909</u>
Non-Operating Revenue (Expense)			
Other	10,000	29,904	39,904
Property tax	106,582		106,582
Interest expense	(13,092)		(13,092)
Interest income	3,727		3,727
Plant investments	4,400		4,400
	<u>111,617</u>	<u>29,904</u>	<u>141,521</u>
Total Non-Operating Revenue			
	<u>111,617</u>	<u>29,904</u>	<u>141,521</u>
Transfers	23,755		23,755
Changes in Net Assets	308,379	9,806	318,185
Net Assets Beginning of Year	<u>2,827,587</u>	<u>743,512</u>	<u>3,571,099</u>
Net Assets End of Year	<u>\$ 3,135,966</u>	<u>\$ 753,318</u>	<u>\$ 3,889,284</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2010

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 630,680	\$ 43,338	\$ 674,018
Cash Paid for Expenses	<u>(430,811)</u>	<u>(48,400)</u>	<u>(479,211)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 199,869	 (5,062)	 194,807
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment on Bonds	(50,466)		(50,466)
Transfers	23,755		23,755
Tap Fees	4,400		4,400
Interest	3,727		3,727
Purchase of Fixed Assets	<u>(12,000)</u>		<u>(12,000)</u>
 CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	 (30,584)		 (30,584)
 CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes and other	<u>106,738</u>	<u>29,904</u>	<u>136,642</u>
 CASH FLOWS FROM NON CAPITAL ACTIVITIE	 106,738	 29,904	 136,642
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 276,023	 24,842	 300,865
 CASH AND CASH EQUIVALENTS:			
Beginning of Year	<u>686,634</u>	<u>197,512</u>	<u>884,146</u>
 End of Year	 <u>\$ 962,657</u>	 <u>\$ 222,354</u>	 <u>\$ 1,185,011</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Combining Statement of Cash Flows
For The Year Ended December 31, 2010

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Totals</u>
Operating Income (Loss)	\$ 173,007	\$ (20,098)	\$ 152,909
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	81,426	23,649	105,075
Decrease in Accounts Payable	(1,659)		(1,659)
(Increase) Decrease in Accounts Receivable	<u>(52,905)</u>	<u>(8,613)</u>	<u>(61,518)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 199,869</u>	<u>\$ (5,062)</u>	<u>\$ 194,807</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements

Year Ended December 31, 2010

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Pagosa Springs, Colorado operates under the statutes governing municipalities of the State of Colorado. The Town operates under a Board form of government and provides the following services as authorized by State statutes: highway and streets, culture-recreation, public improvements, public safety (police), planning and zoning and general administrative services.

The accounting policies of the Town of Pagosa Springs, Colorado conform to generally accepted accounting principles. The following is a summary of such significant policies:

Principles Determining Scope of Reporting Entity

The Town's combined financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

the organization is legally separate; the Town holds the corporate powers of the organization; the Town appoints a voting majority of the organization's board; the Town is able to impose its will on the organization; the organization has the potential to impose a financial benefit/burden on the Town; there is fiscal dependency by the organization on the Town. Based on the aforementioned criteria, the Town of Pagosa Springs has no component units.

Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

They report the following major funds:

General Fund is the Town's primary operating fund. It accounts for all financial resources of the Town except these required legally or by sound financial management to be accounted for in another fund.

Conservation Trust Fund is used to account for lottery revenue received from State.

Measurement Focus, Basis of Accounting, and Financial Statements Presentations

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurements focus and the accrual basis of accounting, as are the proprietary fund statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2010

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentations
(continued)

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's governmental and business-type activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

All governmental fund types used the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Property and specific ownership taxes are reported as receivables and deferred revenue when levied and as revenues when collected in the following year.

Grants and entitlement revenues are recognized when compliance with matching requirements are met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain sick and retirement pay which are accounted for as expenditures when expected to be liquidated with expendable financial resources.

The proprietary fund types are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The measurement focus in these funds is on the flow of economic resources and emphasizes the determination of net income. All assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2010

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentations
(continued)

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

Budgets and Budgetary Accounting

The Town Board follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) In accordance with the State statutes, prior to September 1, the Town Clerk submits to the Town Board a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The State statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administration control. The level of control for the detailed budgets is at the department head function level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to December 31, the budget is legally adopted through passage of a resolution.
- (4) The Town Clerk is required to present a monthly report to the Town Board explaining any variance from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for all funds of the Town of Pagosa Springs.
- (6) Budgets for the General, Debt Service, Capital Projects, Special Revenue Funds and Fiduciary Funds are adopted on a basis consistent with generally accepted accounting principles (GAPP).
- (7) Colorado State statutes require the adoption of a budget for proprietary funds. The budgets for Sanitation Fund and Geothermal fund are prepared essentially on the modified accrual basis of accounting.
- (8) Appropriations lapse at the end of each calendar year.
- (9) The Town Board may authorize supplemental appropriations during the year.

Joint Ventures

The Town of Pagosa Springs participates in special purpose joint ventures, which are not part of the Town's reporting entity. Additional information regarding the Town's participation in joint ventures is provided in Note One. The following is the joint venture in which the Town participates:

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2010

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Colorado Intergovernmental Risk-Sharing Agency

The Town of Pagosa Springs is one of 98 local governments, which are members of the Colorado Intergovernmental Risk Sharing Agency (CIRSA). CIRSA is an organization created in 1982 by an intergovernmental agreement solely to provide property and casualty coverage to its members. Coverage is provided through pooling of self-insured losses and the purchase of stop-loss insurance coverage. In 1987, CIRSA/WC was formed as a separate pool by intergovernmental agreement to provide coverage to its members under the Colorado Workmen's Compensation Act. Both CIRSA and CIRSA/WC are governed by a seven-member board elected by and from its members. The governing board is autonomous as to budgeting and fiscal matters.

Reserves

The Town records reserves to indicate that a portion of the fund balance is legally segregated for a specific future use.

Following is a list of all reserve accounts used by the Town and a description of each:

Reserved for Emergencies – In compliance with the Tabor Amendment to the Constitution of the State of Colorado, General Fund equity is reserved for future emergencies.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and are due and payable February 28 and July 31. All unpaid taxes levied January become delinquent on August 1. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Property taxes levied on December 31 are shown as receivable with an offsetting deferred revenue at December 31. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Cash Deposits and Cash Equivalents

Cash deposits at December 31, 2010, consisted of certificates of deposit with banks and savings and loans and cash in demand deposit accounts. For purposes of the statements of cash flows, the Water and Garbage Funds consider all such highly liquid deposits with an original maturity of less than three months to be cash equivalents.

NOTE (2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in government-wide statement of net assets. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities are reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for government fund statements to the economic resources measurement and full accrual basis used for government-wide statements. However, certain items having no effect on measurement and basis of accounting were eliminated from the governmental fund statements during the consolidation of governmental activities.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
December 31, 2010

NOTE (3) CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION (continued)

	Balance Jan. 1, 2010	Additions	Deletions	Balance Dec. 31, 2010
Geothermal Fund:				
Geothermal System	\$ 1,182,419	\$	\$	\$ 1,182,419
Equipment & vehicles	2,254			2,254
Accumulated Depreciation	<u>(652,922)</u>	<u>(23,648)</u>		<u>(676,570)</u>
Total Geothermal Fund, net	<u>\$ 531,751</u>	<u>\$ (23,648)</u>	<u>\$</u>	<u>\$ 508,102</u>

The depreciation charged to the Capital Improvement Fund in 2010 was \$346,270, to the Sewer Fund \$81,426 and to the Geothermal Fund \$23,648.

NOTE (4) CASH AND DEPOSITS

At December 31, 2010, the District had the following cash and investments:

Deposits \$ 4,147,524

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2010, the State regulatory commissioners had indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2010, the District had bank deposits of \$ 4,486,522 collateralized with securities held by the financial institutions' agents but not in the District's name.

Cash and Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, custodial and concentration risk criteria in which local governments may invest which include:

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2010

NOTE (5) PENSION PLANS

Policemen's Pension

The New Hire fund is administered by the Fire and Police Pension Association (of Colorado), which is a multi-employer comprehensive plan. An actuarial study is performed annually. All new hire employees are covered by the plan and contribute 8% of their base salary. The Town is required to at least match the employee contributions. As of December 31, 2010 all police are eligible and participating in the plan.

The Town's total pension contributions for 2010 were \$25,742 for a payroll of \$322,483.

The normal retirement date shall be the date on which a member has completed at least twenty-five years of active service and has attained the age of sixty. There are provisions for early retirement. The normal retirement benefit shall be two percent of the average of the member's highest three years base salary multiplied by the member's years of service prior to age sixty-five, not to exceed twenty-five years. A Deferred Vested Benefit allows a member who terminates with at least ten years of active service to leave their contributions in the fund and when they attain age sixty-five, to be eligible to receive an annual benefit equal to two percent of the average of their highest three years salary multiplied by their years of active service not to exceed twenty-five years. A member may upon termination elect to have their accumulated contributions refunded to them in a lump sum. In addition to receiving their accumulated contributions, the member shall receive five percent of their total accumulated contributions as interest. Members of this fund and their employees are currently each contributing at the rate of eight percent of base salary.

FPPA issues a publicly available report that includes financial statements and required supplementary information. That report maybe obtained by writing to Fire and Police Pension Association, Two DTC, 5290 DTC Parkway, #100, Englewood, Colorado 80111.

NOTE (6) RECEIVABLES

Receivables at December 31, 2010 consist of the following:

	Governmental <u>Fund</u>	Enterprise <u>Fund</u>
Accounts Receivable	\$ 202,809	\$ 115,533
Property tax	110,761	100,454
Sales tax	536,290	
Cigarette tax	1,441	
Source Gas	3,379	
Cable TV	7,280	
HUFT	5,340	
Telephone	4,242	
Lodgers Tax	<u>40,198</u>	
	\$ 911,740	<u>\$ 215,987</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2010

NOTE (7) PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1st and are payable in two installments (on or before the last day of February and June 15th) or in total by April 30th. The County bills and collects the property taxes and remits the funds to the Town. Property tax revenue is recognized when levied to the extent that it results in a current receivable with an offset to deferred revenue.

NOTE (8) RISK MANAGEMENT

The Town is exposed to various risks of loss, related to injuries of employees while on the job and to property and casualty losses. The Town has joined together with other municipalities to form the Colorado Intergovernmental Risk Sharing Agency to insure against said risk.

The Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity, was formed by intergovernmental agreement by member municipalities pursuant to the provisions of 24-10-115.5, C.R.S. (1985 Repl. Vol.), as amended, 29-1-201 et. seq., C.R.S.(1977 Repl. Vol.), as amended, 29-13-102, C.R.S.(1977 Repl. Vol., as amended, and Colorado Constitution, Article XIV, Section 18(2).

The purpose of CIRSA is to provide members with a defined liability and property coverage and to assist members in preventing losses to municipal property by reducing injuries to persons or property that might result in claims being made against members of CIRSA, their employees or their officers.

It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the Bylaws, any member of CIRSA against stated liability or loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverage at a reasonable cost. All income and assets of CIRSA shall be at all times dedicated to the exclusive benefit of its members. The Bylaws shall constitute the substance of the intergovernmental contract among the members. The Town of Pagosa Springs, Colorado is one member out of a total of ninety-nine towns and cities. CIRSA is directed by a seven-member board of directors composed of municipal officials from member cities and towns.

Board directors are nominated and elected by members to two year staggered terms and must meet at least monthly to direct CIRSA operations.

The participants have control over the financial operation of CIRSA only in their ability to elect board members and their ability to change the bylaws. CIRSA has no formal budgeting requirements.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
Year Ended December 31, 2010

NOTE (8) RISK MANAGEMENT (continued)

Summary of financial information:

Balance sheet date

Total assets	\$ 66,291,264
Total liabilities	<u>(32,691,419)</u>
Total equity	\$ 33,599,845
Revenue	\$ 26,490,950
Expenses	<u>(18,997,029)</u>
Excess of revenue over expenses	<u>\$ 7,493,921</u>

The December 31, 2010 financial statement was not available when this report was issued.

NOTE (9) CCOERA RETIREMENT PLAN

The Colorado County Officials and Employees Retirement Association (Association) was established to serve as trustee and provide continuing administration of a trust fund for retirement benefits of eligible county and municipal officers and county, municipal, and special district employees. The Association established a defined contribution plan called the Colorado County Officials and Employees Retirement Plan (Plan) through which contributions of the employers are combined with contributions of the employees and invested in income earning instruments for the benefit of Plan participants. Any county, municipality, or special district of the State of Colorado may, with the consent of the Association, can become a member of the Association and participate in the Plan by adopting it for its officers and employees.

Employees and officers of Association members are required to participate in the Plan after the completion of one year of service, but participation is optional for all elected board officers. The Plan is controlled by a five-member governing board selected in accordance with Colorado State statutes.

Employer contributions to the Plan is 5% of compensation. Employee contributions must match employer contributions and are funded on a current basis. Employees may make additional voluntary contributions not to exceed 10% of compensation.

Participants vest in employer contributions and in the earnings, losses, and changes in the fair market value of the Plan at 20% per year, as adopted by the Town. Participants are immediately vested 100% in their own contributions and earnings. In the event that an Association member withdraws from the Plan, the participant balances for that member shall become immediately vested 100%. Contributions by the Town to the plan were \$63,548 for a payroll of \$ 1,270,960.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2010

NOTE (9) CCOERA RETIREMENT PLAN (continued)

Net earnings or losses are allocated quarterly to Plan participants. The allocation is based on each participant's balance as of the beginning of that quarter. Participants receiving benefit payments upon retirement or termination are allocated earnings through the date of the distribution.

Benefit payments are made as of the effective date of each participant's retirement or termination. At retirement, each participant has the option of receiving their vested balance in cash or having the Association place the funds in a bank account maintained under the joint control of the Association and the retiring individual. Any employer contribution forfeited by a participant due to termination of employment before becoming fully vested is returned to the member county, municipality, or special district.

The Association may at any time elect to terminate the Plan. In the event of such termination, each participant shall become 100% vested.

In addition to participating in the Plan, each participant may elect to contribute to a deferred compensation plan. Through the deferred compensation plan, a member employer defers payment of a portion of an employee's current salary and deposits the deferred payment with the Association upon a participant's retirement or termination of employment, the Association may begin payment of this deferred amount, and until then, all rights and interest in the deferred compensation plan remain vested with the employer.

Both the retirement plan and the deferred compensation plan were amended July 1, 1991 to allow Participants to self-direct the investment of their funds. Participants may self-direct employee and deferred contributions and earnings, and employer contributions and earnings, in which they are 100% vested. The governing board selected six Fidelity Investment funds (Magellan Fund, Contra Fund, Growth and Income Portfolio, Global Bond Fund, Intermediate Bond Fund and the Retirement Money Market Portfolio) for the investment of self-directed funds. The board continues to manage all other investments of the Plan. If no written directions are received from a participant, the participant's funds are automatically invested in the board managed assets.

Summary of financial information:

Balance sheet date June 30, 2010

Total assets	\$ 935,288,952
Total liabilities	<u>(525,171)</u>
Total availability for benefits	\$ 934,763,781
Revenues and contributions	\$ 170,421,395
Expenses and benefits	<u>(49,550,394)</u>
Excess of revenue over expenses	<u>\$ 120,871,001</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2010

NOTE (10) BUDGET APPROPRIATION

There was a supplemental budget in 2010.

NOTE (11) DEFICIT RETAINED EARNINGS

The Geothermal Fund has a negative retained earnings resulting from depreciation of the system. This will not change for many years.

NOTE (12) TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of State and local governments. The amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the amendment. However, the Town has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE (13) LEASES AND COMMITMENTS

The Town of Pagosa Springs, the Pagosa Springs Community Facilities Coalition, Archuleta County and Wells Fargo Bank have entered into a series of leases to facilitate the financing, of a multi-use community center building. They include the following:

Ground Lease Agreement

This agreement, dated May 1, 2001, is between the Town of Pagosa Springs and the Coalition. The Town has legal title to the 2.5 acre community center site. In this agreement, the Town leased to the Coalition, for a period of fifty years, this site for ten dollars a year.

This agreement, dated May 1, 2001 is between the Town of Pagosa Springs and Wells Fargo Brokerage Services, LLC. In this agreement, the Town entered into a lease purchase financing transaction through Wells Fargo Brokerage Services, LLC for consideration of \$1,717,000. This agreement is on a year-to-year basis and shall be renewable for successive periods not to exceed ten years. The Town secured this lease purchase with the 51% portion of the Community Center, for which the Town has legal title. The balance of the space was conveyed to the Coalition and the County. The Town shall pay a lease payment of \$223,682 per year.

Lease Between Coalition and Archuleta County

This agreement, dated July 17, 2001 is between the Coalition and Archuleta County. By this agreement, the County leased from the Coalition, 2,591 square feet of space in the new Community Center, including 930 feet of kitchen space.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2010

NOTE (13) LEASES AND COMMITMENTS (continued)

Agreement for Construction and Use of a Community Center (as amended).

This agreement, dated May 1, 2001, and amended first on June 5, 2001 and a second time on June 20, 2001, is between the Town and the Coalition. It was entered into for the purpose of providing for the construction, operation, maintenance and use of a Community Center. It states that the Town shall pay approximately \$1,700,000 of the construction costs, a CDBG Grant will amount to \$500,000, the County will pay \$124,000 and the Coalition will pay the balance. The term of the lease is fifty years.

NOTE (14) CAPITAL LEASE

The Town entered into a full pay out capital lease purchase agreement with Wells Fargo on the Town's 51% ownership in the Community Center. The amount financed was \$2,145,184 and is payable at \$118,348 semi annually including interest at 4.75%.

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 1,038,460	\$	\$ 188,086	\$ 850,374
	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
	2011	\$197,414	\$39,280	\$652,690
	2012	207,206	29,488	445,754
	2013	217,483	19,211	228,271
	2014	228,271	8,423	
		\$ 850,374	\$ 96,402	\$

The Town entered into a full payout capital lease with Wells Fargo Equipment Finance, Inc. to purchase a 2010 Case backhoe.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
2011	\$ 13,537	\$ 2,459	\$ 52,317
2012	14,105	1,891	38,212
2013	14,697	1,299	23,515
2014	15,314	682	8,201
2015	8,201	101	
	\$ 65,854	\$ 6,432	

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease		\$ 72,416	\$ 6,562	\$ 65,854

NOTE (15) BONDS PAYABLE

Bonds payable at December 31, 2010 are comprised of the following:

A note payable to Water Pollution Control Revolving Fund in the original amount of \$640,000. Total loan is \$370,118. Note is payable in semi-annual payments of \$25,234 including interest at 4.5%.

NOTE (15) BONDS PAYABLE (continued)

Note to State of Colorado Energy and Mineral Impact assistance program in the amount of \$15,000,000 payable \$120,364 per year at 5% interest until 2028. This note was paid off in 2010.

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2011	\$ 50,467	\$ 39,075	\$ 11,392	\$ 223,727
2012	50,467	40,854	9,613	182,873
2013	50,467	42,714	7,753	140,159
2014	50,467	44,657	5,581	95,502
2015	50,467	46,689	3,778	48,813
2016	50,467	48,813	1,654	
	\$ 302,802	\$ 262,802	\$ 39,771	

Net Change in Debt

<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
\$ 310,177	\$	\$ 47,375	\$ 262,802

There are a number of limitations and restrictions contained in the various bond indentures. The District believes to be in compliance with all significant limitations and restrictions.

NOTE (16) BUDGET LAW

There was no violation of budget law.

Supplementary Information

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Assets Budget and Actual (NON-GAAP)
Sanitation Fund
Year Ended December 31, 2010

	SANITATION			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees	\$ 583,900	\$ 583,900	\$ 683,585	\$ 99,685
Total Revenue	<u>583,900</u>	<u>583,900</u>	<u>683,585</u>	<u>99,685</u>
EXPENSES				
Personnel	102,316	102,316	93,830	8,486
Commodities	245,269	245,269	224,720	20,549
Contractual	90,500	90,500	110,602	(20,102)
Total Expenses	<u>438,085</u>	<u>438,085</u>	<u>429,152</u>	<u>8,933</u>
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	145,815	145,815	254,433	108,618
NON-OPERATING REVENUES (EXPENSES)				
Grants				
Property tax	108,431	108,431	106,582	(1,849)
Debt service	(50,468)	(50,468)	(50,467)	1
Plant investment fees	17,600	17,600	4,400	(13,200)
Other income			10,000	10,000
Interest Income	12,000	12,000	3,727	(8,273)
Capital outlay	(425,000)	(425,000)	(12,000)	413,000
Total Non-Operating Revenue	(337,437)	(337,437)	62,242	399,679
Net Income	(191,622)	(191,622)	316,675	508,297
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(81,426)	
Principal payments			37,375	
Transfers			23,755	
Capital outlay			12,000	
NET ASSETS - BEGINNING OF YEAR			<u>2,827,587</u>	
NET ASSETS END OF YEAR				<u>\$ 3,135,966</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Assets Budget and Actual (NON-GAAP)
Geothermal Fund
Year Ended December 31, 2010

	GEOHERMAL			Variance- Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUE				
Service fees and leases	\$ 63,151	\$ 63,151	\$ 48,400	\$ (14,751)
Total Revenue	<u>63,151</u>	<u>63,151</u>	<u>48,400</u>	<u>(14,751)</u>
EXPENSES				
Personnel	8,638	8,638	8,563	75
Commodities	31,950	31,950	24,949	7,001
Contractual	15,000	15,000	11,338	3,662
Total Expenses	<u>55,588</u>	<u>55,588</u>	<u>44,850</u>	<u>10,738</u>
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	7,563	7,563	3,550	(4,013)
NON-OPERATING REVENUES (EXPENSES)				
Other			<u>29,904</u>	<u>29,904</u>
Total Non-Operating Revenue			29,904	29,904
Net Income	7,563	7,563	33,454	25,891
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(23,648)	
Principal payments				
Loan proceeds				
NET ASSETS - BEGINNING OF YEAR			<u>743,512</u>	
NET ASSETS END OF YEAR			\$ 753,318	

See accompanying notes

Other Information

The public report burden for this information collection is estimated to average 380 hours annually.

LOCAL HIGHWAY FINANCE REPORT

City or County:
Pagosa Springs, CO
YEAR ENDING :
December 2010

This Information From The Records Of (example - City of _ or County of _) Prepared By: April Hessman
Phone: 970-264-4154

I. DISPOSITION OF HIGHWAY-USER REVENUES AVAILABLE FOR LOCAL GOVERNMENT EXPENDITURE

ITEM	A. Local Motor-Fuel Taxes	B. Local Motor-Vehicle Taxes	C. Receipts from State Highway-User Taxes	D. Receipts from Federal Highway Administration
1. Total receipts available				
2. Minus amount used for collection expenses				
3. Minus amount used for nonhighway purposes				
4. Minus amount used for mass transit				
5. Remainder used for highway purposes				

II. RECEIPTS FOR ROAD AND STREET PURPOSES

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES

ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local sources:		A. Local highway disbursements:	
1. Local highway-user taxes		1. Capital outlay (from page 2)	362,699
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	419,111
b. Motor Vehicle (from Item I.B.5.)		3. Road and street services:	
c. Total (a.+b.)		a. Traffic control operations	
2. General fund appropriations		b. Snow and ice removal	
3. Other local imposts (from page 2)	711,075	c. Other	
4. Miscellaneous local receipts (from page 2)	0	d. Total (a. through c.)	0
5. Transfers from toll facilities		4. General administration & miscellaneous	
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	
a. Bonds - Original Issues		6. Total (1 through 5)	781,810
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)	0	a. Interest	
7. Total (1 through 6)	711,075	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	0
C. Receipts from State government (from page 2)	70,735	2. Notes:	
D. Receipts from Federal Government (from page 2)	0	a. Interest	
E. Total receipts (A.7 + B + C + D)	781,810	b. Redemption	
		c. Total (a. + b.)	0
		3. Total (1.c + 2.c)	0
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	781,810

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

	Opening Debt	Amount Issued	Redemptions	Closing Debt
A. Bonds (Total)				0
I. Bonds (Refunding Portion)				
B. Notes (Total)				0

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation
		781,810	781,810		0

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2010

II. RECEIPTS FOR ROAD AND STREET PURPOSES - DETAIL

ITEM	AMOUNT	ITEM	AMOUNT
A.3. Other local imposts:		A.4. Miscellaneous local receipts:	
a. Property Taxes and Assessments		a. Interest on investments	
b. Other local imposts:		b. Traffic Fines & Penalties	
1. Sales Taxes	711,075	c. Parking Garage Fees	
2. Infrastructure & Impact Fees		d. Parking Meter Fees	
3. Liens		e. Sale of Surplus Property	
4. Licenses		f. Charges for Services	
5. Specific Ownership &/or Other		g. Other Misc. Receipts	
6. Total (1. through 5.)	711,075	h. Other	
c. Total (a. + b.)	711,075	i. Total (a. through h.)	0
	(Carry forward to page 1)		(Carry forward to page 1)

ITEM	AMOUNT	ITEM	AMOUNT
C. Receipts from State Government		D. Receipts from Federal Government	
1. Highway-user taxes	70,735	1. FHWA (from Item I.D.5.)	
2. State general funds		2. Other Federal agencies:	
3. Other State funds:		a. Forest Service	
a. State bond proceeds		b. FEMA	
b. Project Match		c. HUD	
c. Motor Vehicle Registrations		d. Federal Transit Admin	
d. Other (Specify) - DOLA Grant		e. U.S. Corps of Engineers	
e. Other (Specify)		f. Other Federal	
f. Total (a. through e.)	0	g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	70,735	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs			0
c. Construction:			
(1). New Facilities			0
(2). Capacity Improvements		362,699	362,699
(3). System Preservation			0
(4). System Enhancement & Operation			0
(5). Total Construction (1) + (2) + (3) + (4)	0	362,699	362,699
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	362,699	362,699
			(Carry forward to page 1)

Notes and Comments: